

Excise and Sales Taxes

THE proposed \$1¾ billion reduction in excise taxes in the Federal budget for fiscal 1966 brings into focus an important area of Federal revenues that has attracted relatively little attention for many years. Except for taxes connected with the highway program, Federal excises have not been comprehensively revised since 1954. The brief article that follows provides some background information that may be helpful in assessing the current excise tax proposals. It indicates the importance of excises—both Federal and State and local—in the governmental revenue systems. In addition, it discusses the cyclical variability of these levies, and notes the industries and the types of personal consumption items which are taxed.

Sales and excise taxes are essentially the same type of tax, but through general usage it has become common to refer to the Federal portion as excise taxes and the State and local portion as sales taxes. The Federal excise system imposes taxes on a limited number of specific goods and services. Some of these taxes are levied on manufacturers and some are directly paid for by the purchaser of the commodity. Federal user charges on such facilities as highways, inland waterways, and airways, are also classified as excise taxes.

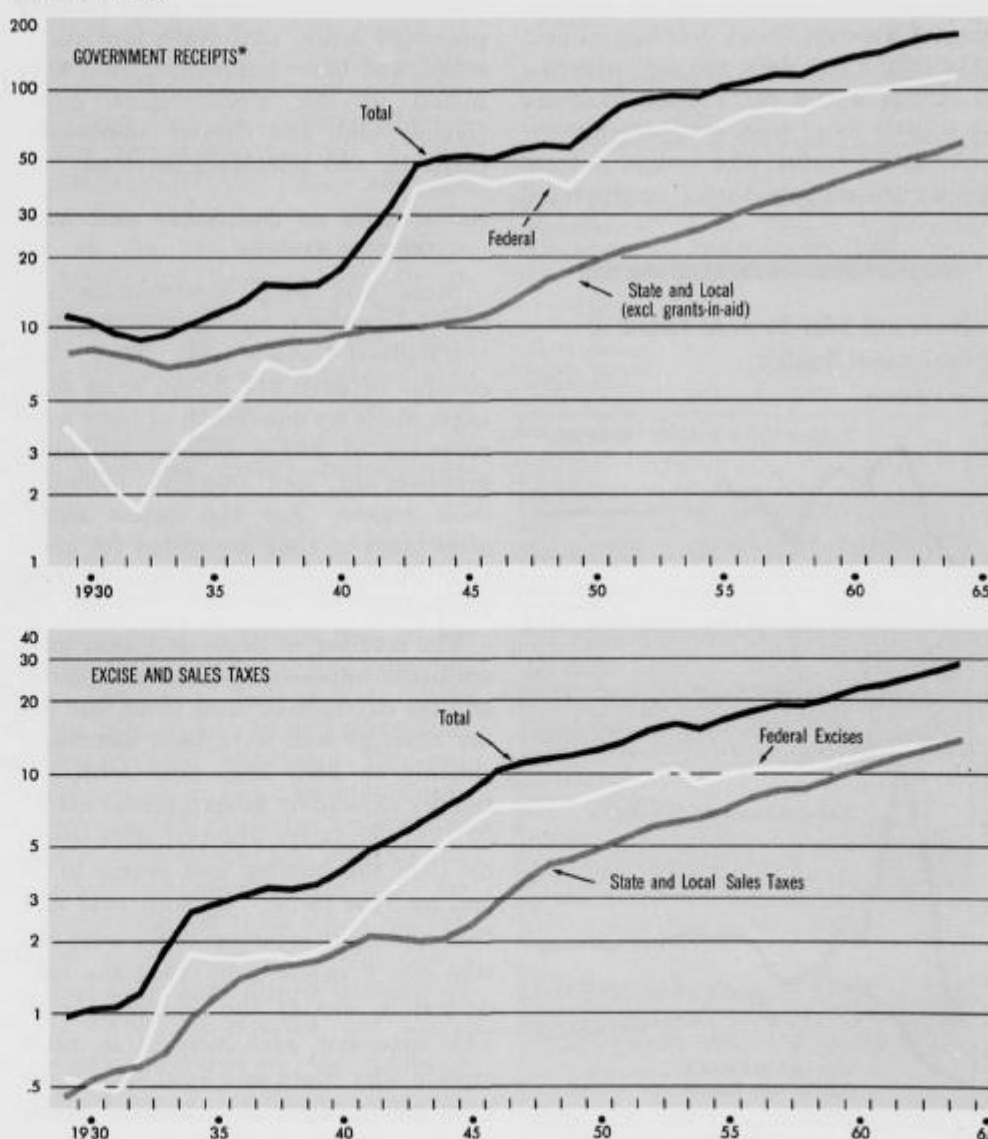
In contrast, State and local sales taxes typically cover a broad range of goods and services which are sold at wholesale and retail. A few basic necessities such as food, rent, and medical

services are usually exempted. Sales taxes are levied primarily by State governments, rather than by local units, and are the principal sources of State revenue.

Government at all levels received \$28½ billion in excise and sales taxes during 1964, about one-sixth of the \$173 billion of revenue raised from the public.¹ The excise and sales tax re-

Government Receipts and Excise and Sales Taxes

Billion \$ (ratio scale)



* Based on National Income Accounts

U.S. Department of Commerce, Office of Business Economics

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ceipts were divided nearly equally between the Federal Government and State and local governments.

Excise taxes in the Federal revenue system

Federal excise tax receipts last year totaled \$14½ billion and comprised one-eighth of Federal revenues. The new budget submitted last month calls for a gross reduction in excises of \$1¼ billion, or 12 percent, effective the beginning of next July. About \$½ billion of this reduction would be offset by proposed increases in users' taxes and fees. Thus, the net excise tax reduction requested by the President is roughly \$1¼ billion, or 9 percent of total excises at the fiscal 1964 levels. With Federal receipts on a national income account basis totaling almost \$114 billion last year, the net reduction in excises would cut Federal revenues by a little more than one percent.

As noted earlier, the budget did not specify the manufacturers' or the retail

excises to be reduced. Table 1 lists the Federal excises currently in force and shows the dollar value of receipts during fiscal 1964. Alcohol and tobacco taxes, which are imposed for general social reasons as well as to raise revenue, amounted to \$5½ billion and accounted for two-fifths of total fiscal 1964 receipts. The taxes earmarked for the highway trust fund—mainly the manufacturers' excises on trucks, buses and motor fuel—totaled \$3½ billion in fiscal 1964 and accounted for a quarter of the total Federal excise receipts.

The remainder, accounting for about one-third of total excises, includes \$½ billion in retail excises (luggage, furs, jewelry, and toilet preparations); \$2¾ billion in manufacturers' taxes (mainly passenger autos, auto parts and accessories, and home appliances), and \$1¾ billion in the miscellaneous group (mainly club and theater admissions, cabarets, and telephone services).

Sales taxes in the State and local revenue system

State and local governments are more dependent on sales taxes than the Federal Government. Their 1964 receipts of over \$14 billion from sales taxes made up one-fourth of their total revenues of \$59½ billion, excluding grants-in-aid, and one-fifth including such grants. For the States alone, sales taxes in 1964 accounted for more than two-fifths of their receipts from the public.

The number of State and local governments imposing general sales taxes, and the coverage of these taxes, and the tax rates as well have been increasing steadily to help keep pace with the rapidly expanding governmental needs. In 1947, 27 states imposed sales taxes; by 1955 the number had grown to 34 and by 1964 to 37. In both 1947 and 1955 the most common State sales tax rate was 2 percent; by 1964 the concentration was at the 3-percent level. This extension and increase in rates explain why State and local sales taxes have grown faster than Federal excise revenues, the growth in which has reflected mainly rising economic activity. In the late 1940's the Federal

Table 1.—Federal Excise Taxes, Fiscal year 1964

Type	Tax rate (percent)	Receipts (billions of dollars)	Receipts (percent distribution of total)
Excise Taxes, before refunds		14.1	100.0
Alcohol.....	(1)	3.6	25.4
Tobacco.....	(1)	2.1	14.6
Stamp taxes.....	(1)	.2	1.2
Manufacturers'		6.1	43.4
Trucks and Buses*	10	.4	2.6
Gasoline*	4¢ per gal.	2.6	18.6
Tires, Tubes, etc.*	(1)	.4	2.9
Lubricating oils.....	3¢ & 6¢ per gal.	.1	.6
Passenger autos.....	10	1.8	12.7
Auto parts & accessories.....	8	.2	1.7
Home appliances.....	5 & 10	.3	2.4
Recreation.....	10	.1	.5
Business & Store machines.....	10	.1	.5
Miscellaneous.....	(1)	.1	.7
Retailers.....		.5	3.4
Luggage.....	10	.1	.6
Jewelry.....	10	.2	1.4
Furs.....	10	(2)	.2
Toilet preparations.....	10	.2	1.3
Miscellaneous excise taxes.....		1.7	11.9
Club, Theater, Cabaret, Telephone services.....	(1)	.2	1.2
Other 2.....	8 & 10 (1)	1.0	7.3
Unapplied collections.....		(2)	.1
Less refunds.....		.3	
Excises, after refunds		13.8	

*Earmarked for highway trust fund.

1 Not a simple percentage; for detailed rates see, *Federal Tax Collections*, U.S. Treasury publication number 422 (3-64) pp. 5-7.

2 Less than \$.05 billion.

3 Includes a small amount for the highway trust fund.

Source: U.S. Treasury Department and U.S. Department of Commerce, Office of Business Economics.

Government accounted for about two-thirds of total excise and sales tax revenues. The Federal share declined to about 55 percent in 1955, and has

Table 2.—Changes in Tax Receipts During Recessions

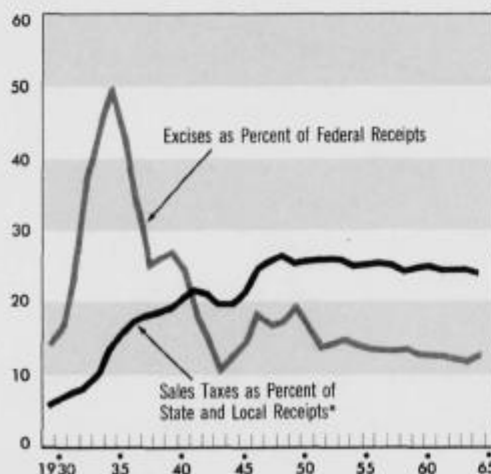
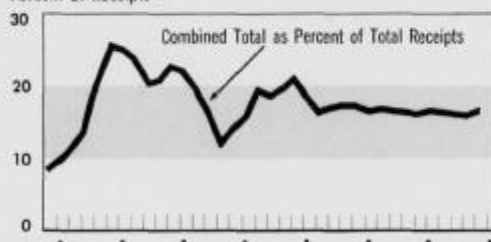
(Percent change peak to trough)

	GNP Peaks and Troughs			
	P 1948 IV T 1949 II	P 1953 II T 1954 II	P 1957 III T 1958 I	P 1960 II T 1961 I
Total GNP	-3.6	-2.7	-3.4	-5.5
Federal receipts:				
Total.....	-9.6	-12.4	-8.6	-4.5
Indirect business taxes.....	0	1-10.6	-4.9	-7.7
Personal.....	-11.0	-10.8	-4.0	-1.3
Corporate.....	-20.7	-23.3	-23.3	-13.5
Contributions.....	6.5	6.7	-1.6	1.1
State & Local receipts:				
Total (excluding grants-in-aid).....	4.9	7.4	2.0	4.1
Indirect.....	4.7	6.4	1.5	4.3
Personal.....	13.6	11.8	3.7	5.5
Corporate.....	-14.3	-22.2	10.0	-7.7
Contributions.....	14.3	23.1	4.3	6.9

1 Reflects in part tax cut effective in spring 1964.

Excise and Sales Taxes as Percent of Government Receipts

Percent of Receipts



* Excluding grants-in-aid

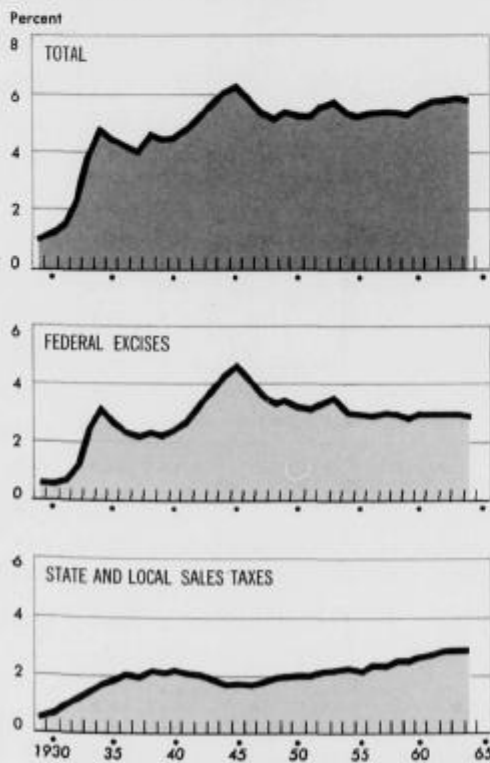
since continued to drop, reaching about 50 percent in recent years.

Relation to private domestic demand

Relative to personal consumption expenditures and gross private domestic investment—the components of GNP on which the great bulk of sales and excise taxes fall—the advance in this revenue source has been slight. After declining to about 5½ percent of the value of sales to the private domestic economy in the early postwar period, the ratio rose sharply during the Korean war, when the Federal portion of these taxes was materially increased, and fell back to 5½ percent immediately after the war, when some levies were reduced. Since then it has tended slightly higher, and for the last few years has averaged close to 6 percent of private domestic demand.

Since 1955 Federal excise taxes have been about stable at 3 percent of this total. State and local sales tax revenues have increased from a low of under 2

Excise and Sales Taxes as Percent of Private Domestic Demand*



percent just after World War II to nearly 3 percent in 1964.

Sensitivity to Declines in Business Activity

Federal excise² tax receipts have declined substantially in each of the three post-Korean business recessions. However, receipts remained little changed during the 1948-49 downturn. (See table 2.) Part of the large 1953-54 decline reflected the excise tax cut that took effect at the end of March 1954, but even before this cut receipts had fallen considerably.

A major share of the cyclical drops in total Federal excises is accounted for by the 10-percent automobile manufacturers' tax and to a lesser extent by taxes on related automotive goods. In recent years taxes on autos, trucks, buses, and tires and tubes have accounted for nearly one-fifth of total Federal excise receipts. Auto sales and production declined very sharply in each of the post-Korean recessions. Car production, however, actually increased during the 1948-49 business recession and this gain was instrumental in the maintenance of Federal excises in this period. Output and sales of the other taxable items have tended to show much less change during recessions.

State and local sales tax collections have been much less sensitive to the mild postwar business declines, and have continued to rise in each of the four postwar recessions. However, during all but one of these periods (1948-49) the rate of gain slowed perceptibly in the recession quarters. The continued growth in these receipts during the recessions is explained by the wide range of commodities and services that State and local governments tax. Demand for many of these items has continued to increase, although at a reduced pace, even during business declines. Also, as pointed out above, rates have increased and the number of

² Data for indirect business taxes have been used in the following analysis but virtually all of the decline in indirect business taxes shown in the table is traceable to excises. In addition to \$14½ billion of excises in 1964, indirect business taxes included \$1¼ billion of customs duties, and \$14 billion of nontax receipts.

Table 3.—Industrial Incidence of Excise and Sales Taxes, 1958

(Taxes as a percent of gross product originating)

	Percent
All industries, total.....	4
Agriculture, forestry, and fisheries.....	(*)
Mining.....	(*)
Contract construction.....	(*)
Manufacturing.....	7
Food and kindred products.....	20
Tobacco manufactures.....	66
Products of petroleum and coal.....	34
Rubber products.....	13
Electrical machinery.....	4
Transportation equipment.....	9
Wholesale and retail trade.....	11
Wholesale trade.....	16
Retail trade and automobile services.....	8
Finance, insurance, and real estate.....	(*)
Transportation ²	3
Railroads.....	3
Highway freight transportation and warehousing.....	2
Air transportation (common carriers).....	9
Communications and public utilities.....	5
Telephone, telegraph, and related services.....	9
Electricity and gas.....	2
Services.....	1

* Less than .5 percent.

¹ Primarily alcoholic beverage taxes.

² Some Federal excises have been subsequently reduced or eliminated.

Table 4.—Excise and Sales Taxes¹ As a Percent of Major Types of Personal Consumption Expenditures, 1958

	Percent
Tobacco products.....	43
Alcoholic beverages.....	33
Gasoline and oil.....	25
Telephone, telegraph, cable and wireless.....	9
Inter-city bus transportation ¹	9
Railroad transportation ²	9
Airline transportation ¹	9
New cars.....	9
Tires, tubes, accessories, and parts.....	9
Clubs and fraternal organizations, except insurance.....	9
Jewelry and watches.....	8
Radio and television receivers, records, and musical instruments.....	7
Toilet articles and preparations.....	6
Admissions to specified spectator amusements, except motion pictures and pari-mutuel receipts.....	6
China, glassware, tableware and utensils.....	4
Wheel goods, durable toys, sport equipment, boats, and pleasure aircraft.....	4
Nondurable toys and sport supplies.....	4
Kitchen and other household appliances.....	3
Cleaning and polishing preparations, and miscellaneous household supplies and paper products.....	3
Motion picture admissions ²	2
Other fuel and ice.....	2
Clothing and shoes.....	2
Other durable house furnishings.....	2
Furniture, including mattresses and bedsprings.....	2
Drug preparations and sundries.....	2
Semidurable house furnishings.....	2
Stationery and writing supplies.....	2
Food.....	2
Ophthalmic products and orthopedic appliances.....	2
Books and maps.....	2
Trailers.....	2
Flowers, seeds, and potted plants.....	2
Gas.....	1
Electricity.....	1
Bank service charges, trust services, and safe deposit box rental.....	1
Miscellaneous repair services.....	(*)
Magazines, newspapers, and sheet music.....	(*)

¹ Federal and State and local.

² Federal tax repealed subsequent to 1958.

³ Federal tax rate reduced subsequent to 1958.

* Less than .5 percent.

(Continued on p. 19)

rates paid in a small number of the manufacturing industries. The highest excise rates—exceeding one-half of gross product originating—are in the liquor industry (part of the food group but not shown separately in the table) and in tobacco manufacturing. Petroleum products are also heavily taxed. The automobile group and rubber products are taxed at about one-tenth of gross product. Except for passenger cars, a major portion of the Federal levies on other items in the transportation equipment group, and on petroleum and rubber products, are earmarked for the highway trust fund.

The Federal transportation tax on freight was repealed in 1958. In 1962, the passenger excises were repealed, with the exception of the airlines tax,

which was lowered. As a result, the tax on the transportation industry dropped from less than 3 percent of gross product originating in 1958 to about 1 percent in 1963.

State and local sales taxes, of course, have their impact mainly on wholesale and retail trade, and are primarily responsible for the relatively high rate applying in these industries. The only other major State and local sales tax source is electric and gas utilities.

Relation to personal consumption

Sales and excise taxes on major types of consumption expenditures are developed in the course of preparing benchmark estimates of personal consumption. Table 4 shows the relative importance of sales and excise taxes on major items of personal consumption

expenditures for 1958. Estimates of consumption expenditures are not prepared for individual commodities but rather for groups of commodities. For this reason the percentage tax for an entire group is shown even though only a single commodity in the group may be taxed.

As would be expected, the highest rates are on tobacco products and alcoholic beverages, comprising one-third or more of the total purchase price. One-quarter of expenditures on gasoline and oil are accounted for by these taxes. The low tax rates on many groups reflect the fact that they are subject only to State and local government sales taxes. It is important to note that the Federal taxes on transportation and on motion picture admissions have been reduced or eliminated since 1958.

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(Units)

Month	Unadjusted for seasonal variation													
	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
January	44	1,343	3,326	2,073	11,376	11,345	15,238	10,726	7,931	9,580	5,580	5,550	15,231	50,897
February	493	2,287	3,003	3,992	12,537	15,006	18,263	32,823	11,986	8,823	4,349	7,831	18,169	37,697
March	759	2,436	6,015	17,878	19,225	21,346	25,093	41,698	14,152	8,781	2,781	9,928	21,533	33,740
April	1,831	2,637	6,113	13,473	16,731	24,046	32,904	37,104	11,834	7,542	4,096	10,380	24,673	21,354
May	2,383	4,286	5,023	12,347	17,320	23,841	34,539	20,327	11,170	7,740	7,067	8,741	22,572	15,317
June	2,701	4,854	4,887	12,285	14,792	20,682	32,633	16,244	13,136	7,538	6,233	8,014	27,978	18,760
July	2,654	4,944	2,977	12,572	13,401	21,720	29,082	14,672	11,717	2,690	4,823	12,924	32,213	10,302
August	2,417	4,844	4,083	14,307	14,206	22,309	25,417	15,042	11,947	3,000	4,137	11,121	33,084	17,411
September	2,307	5,194	1,863	13,607	14,406	21,363	22,072	15,627	11,709	2,315	3,792	9,843	24,653	17,178
October	2,002	5,700	3,472	15,530	17,024	21,294	20,891	16,316	12,817	2,641	4,085	12,677	30,493	19,015
November	1,820	4,296	2,759	11,997	13,876	14,923	18,738	9,217	13,182	1,070	3,775	12,747	35,022	17,698
December	1,474	5,756	2,329	11,263	11,841	13,673	15,673	5,626	12,873	2,061	3,642	11,845	18,185	14,804
Monthly average	1,717	3,566	4,149	10,024	14,066	19,283	24,061	19,577	12,034	4,230	4,714	10,142	23,683	24,421
Month	Seasonally adjusted annual rate													
	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
January	14,721	29,132	14,172	22,430	18,934	11,687	25,647	15,483	10,549	17,372	20,526	16,268	14,347	14,473
February	10,065	34,454	14,401	20,191	22,472	20,009	28,349	18,077	12,102	20,524	20,487	21,705	16,864	18,730
March	20,217	47,489	20,750	23,155	31,399	28,053	35,087	34,684	15,305	24,068	28,927	27,420	23,868	24,578
April	30,811	43,572	21,228	22,085	32,252	22,323	32,101	22,378	14,703	31,011	29,017	22,489	20,779	22,668
May	31,008	68,736	21,403	18,504	32,384	30,327	30,102	32,132	18,915	24,538	38,122	22,430	22,871	23,100
June	23,416	32,654	14,474	20,084	25,221	35,307	30,755	16,836	15,827	33,427	00,186	22,712	22,426	20,414
July	25,099	33,807	16,182	22,475	15,783	36,143	24,280	16,890	18,287	31,700	29,090	19,537	20,697	19,796
August	31,176	31,579	12,146	23,901	15,999	32,100	26,307	16,208	22,305	33,817	25,034	22,813	24,403	19,328
September	20,364	19,837	12,023	22,588	10,089	34,331	23,149	13,371	20,440	28,748	25,413	20,113	19,605	16,450
October	24,412	34,813	15,146	24,021	17,621	29,325	19,152	13,270	20,341	31,317	24,045	18,345	22,139	17,730
November	25,937	10,007	18,487	27,755	15,490	26,351	18,302	6,070	14,695	22,280	10,063	14,771	17,308	13,088
December	22,098	12,089	15,668	19,050	13,586	24,324	13,379	7,749	13,580	22,045	18,154	13,170	16,352	11,700
Monthly average	27,241	32,141	16,663	22,320	21,144	28,215	25,517	16,473	18,564	28,475	30,812	20,106	20,315	18,422

* Prior to July 1944 units are estimated using units-per-acre factor derived from annual report tabulations.

Source: Federal Housing Administration.